

**REPORT OF THE AUDIT OF THE
TRIMBLE COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 15, 2005



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
TRIMBLE COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES

April 15, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Trimble County Sheriff as of April 15, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,903,708 for the districts for 2004 taxes, retaining commissions of \$119,532 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,783,460 to the districts for 2004 Taxes. Taxes of \$5 are due to the districts from the Sheriff and refunds of \$9 are due to the Sheriff from the taxing districts.

Report Comments:

- The Depository Institution Should Have Provided Additional Collateral of \$227,403 To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were under collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Randy Stevens, Trimble County Judge/Executive

Honorable Tim Coons, Trimble County Sheriff

Members of the Trimble County Fiscal Court

Independent Auditor's Report

We have audited the Trimble County Sheriff's Settlement - 2004 Taxes as of April 15, 2005. This tax settlement is the responsibility of the Trimble County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Trimble County Sheriff's taxes charged, credited, and paid as of April 15, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2005 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Randy Stevens, Trimble County Judge/Executive
Honorable Tim Coons, Trimble County Sheriff
Members of the Trimble County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Depository Institution Should Have Provided Collateral Of \$227,403 To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 1, 2005

TRIMBLE COUNTY
TIM COONS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

April 15, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 167,393	\$ 345,308	\$ 1,207,114	\$ 308,851
Tangible Personal Property	3,267	9,001	22,008	15,628
Intangible Personal Property				5,134
Fire Protection	1,239			
Omitted Taxes				82
Franchise Corporation	82,253	185,096	580,745	
Distilled Spirits Taxes				
Additional Billings	225	453	1,622	415
Limestone, Sand, and Mineral Reserves	40	81	291	
Bank Franchises	21,235			
Penalties	1,758	3,628	12,592	3,258
Adjusted to Sheriff's Receipt	(34)	(73)	(275)	(67)
Gross Chargeable to Sheriff	<u>\$ 277,376</u>	<u>\$ 543,494</u>	<u>\$ 1,824,097</u>	<u>\$ 333,301</u>
<u>Credits</u>				
Exonerations	\$ 694	\$ 1,457	\$ 5,007	\$ 1,281
Discounts	2,723	4,764	16,417	4,389
Delinquents:				
Real Estate	3,117	6,515	22,403	5,732
Tangible Personal Property	4	10	25	22
Total Credits	<u>\$ 6,538</u>	<u>\$ 12,746</u>	<u>\$ 43,852</u>	<u>\$ 11,424</u>
Taxes Collected	\$ 270,838	\$ 530,748	\$ 1,780,245	\$ 321,877
Less: Commissions *	<u>11,798</u>	<u>22,557</u>	<u>71,210</u>	<u>13,967</u>
Taxes Due	\$ 259,040	\$ 508,191	\$ 1,709,035	\$ 307,910
Taxes Paid	258,979	508,071	1,708,614	307,796
Refunds (Current and Prior Year)	<u>60</u>	<u>119</u>	<u>430</u>	<u>111</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ (9)</u>	<u>\$ 3</u>

* and ** See page 4

The accompanying notes are an integral part of this financial statement.

TRIMBLE COUNTY
TIM COONS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES
April 15, 2005
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,113,463
4% on	\$	1,780,245

** Special Taxing District:

Library District	\$	<u>1</u>
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TRIMBLE COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 15, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$227,403 of public funds uninsured and unsecured.

TRMBLE COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2005
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 15, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,000,000
Uncollateralized and uninsured	<u>227,403</u>
Total	<u>\$ 1,327,403</u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 2004 through April 15, 2005.

Note 4. Interest Income

The Trimble County Sheriff earned \$1,221 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Trimble County Sheriff collected \$16,934 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Fees

The Trimble County Sheriff collected \$495 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

TRIMBLE COUNTY
TIM COONS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 15, 2005

STATE LAWS AND REGULATIONS:

The Depository Institution Should Have Provided Additional Collateral Of \$227,403 To Protect Deposits

On November 15, 2004, \$227,403 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response: We have instructed the bank to provide additional pledged securities.

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's Office lacks a proper segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the County Sheriff has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare daily tax collections totals to receipts ledger and deposit slip.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.
- The Sheriff should agree monthly tax reports to receipts ledger and disbursements ledger.

These reviews should be indicated with the Sheriff's initials.

Sheriff's Response: None

PRIOR YEAR:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$62,917 To Protect Deposits
- Lacks Adequate Segregation Of Duties

These comments were not corrected and are discussed above.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Randy Stevens, Trimble County Judge/Executive
Honorable Tim Coons, Trimble County Sheriff
Members of the Trimble County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Trimble County Sheriff's Settlement - 2004 Taxes as of April 15, 2005, and have issued our report thereon dated November 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Trimble County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- **The Sheriff's Office Lacks Adequate Segregation Of Duties**

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The
Financial Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Trimble County Sheriff's Settlement - 2004 Taxes as of April 15, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Depository Institution Should Have Provided Additional Collateral Of \$227,403 To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 1, 2005

